MCI Group (an integrated business of WorldCom, Inc.)
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2001

(1) The Company and Significant Accounting Policies—

Description of Business and Organization:

Organized in 1983, WorldCom, Inc., a Georgia corporation, provides a broad range of communications services to both U.S. and non-U.S. based businesses and consumers. We are a global communications company utilizing a strategy based on being able to provide service through our own facilities throughout the world instead of being restricted to a particular geographic location. We call this our "on-net" strategy. The on-net approach allows our customers to send data or voice communications across town, across the U.S., or to any of our networks in Europe or Asia, often without ever leaving our networks. The on-net approach provides our customers with superior reliability and low operating costs. Our core business is communications services, which includes voice, data, Internet and international services. We serve as a holding company for our subsidiaries' operations. References herein to WorldCom, "we," "our," or "us" include WorldCom, Inc. and its subsidiaries, unless the context otherwise requires.

Basis of Combination and Presentation:

On June 7, 2001, our shareholders approved a recapitalization involving the creation of two separately traded tracking stocks:

- WorldCom group stock, which is intended to reflect the performance of our data, Internet, international and commercial voice businesses and is quoted on The Nasdaq National Market under the trading symbol "WCOM', and
- MCI group stock, which is intended to reflect the performance of our consumer, small business, wholesale long distance voice and data, wireless messaging and dial-up Internet access businesses and is quoted on The Nasdaq National Market under the trading symbol "MCIT".

In connection with the recapitalization, we amcndcd our articles of incorporation to replace our existing common stock with two new series of common stock that are intended to reflect, or track, the performance of the businesses attributed to the WorldCom group and the MCI group. Effective with the recapitalization on June 7, 2001, each share of our existing common stock was changed into one share of WorldCom group stock and 1/25 of a share of MCI group stock.

A tracking stock is a separate class of a company's common stock intended to provide a return to investors based upon the financial performance of a distinct business unit of the company, sometimes referred to as the targeted business. These targeted businesses are collections of businesses that we have grouped together in order for us to issue WorldCom group stock and MCI group stock. The ownership of the targeted business does not change, and while each of the classes of stock trade separately, all shareholders are common Shareholders of a single company, WorldCom, and are subject to all risks of an investment in WorldCom as a whole.

During the second quarter of 2001, we dcclarcd the initial quarterly dividend for the MCI group stock. A cash dividend of $0.60 per share of MCI group stock, or approximately $70 million in the aggregate, was paid on October 15, 2001 to shareholders of record as of the close of business on September 28, 2001. Dividends of $0.60 per share of MCI group stock were also declared in the third and fourth quarters of 2001, which have been or will he paid in 2002.

(1) The Company and Significant Accounting Policies — (Continued)

The MCI group was initially allocated notional debt of $6 billion and our remaining debt was allocated on a notional basis to the WorldCom group. We intend, for so long as the WorldCom group stock and the MCI group stock remains outstanding, to include in our filings under the Securities Exchange Act of 1934, as amended, the combined financial statements of each of the WorldCom group and the MCI group. These combined financial statements will be prepared in accordance with accounting principles generally accepted in the United States, and in the case of annual financial statements, will be audited. These combined financial statements are not legally required under current law or SEC regulations.

Voting rights of the holders of the WorldCom group and the MCI group stock are prorated based on the relative market values of WorldCom group stock and MCI group stock. We will conduct shareholder meetings that encompass all holders of voting stock. The WorldCom group and the MCI group shareholders will vote together as a single class on all matters brought to a vote of shareholders, including the election of our directors.

Our board of directors may at any time convert each outstanding share of MCI group stock into shares of WorldCom group stock at 110% of the relative trading value of MCI group stock for the 20 days prior to the announcement of the conversion. No premium will be paid on a conversion that occurs after June 7, 2004.

If all or substantially all of the WorldCom group or MCI group assets are sold, either: (i) the relevant shareholders will receive a distribution equal to the fair value of the net proceeds of the sale, either by special dividend or by redemption of shares; or (ii) each outstanding share of MCI group stock will be converted into shares of WorldCom group stock at 110% or 100% of the relative trading value of MCI group stock for a 10 trading day period following the sale.

Intergroup Allocation Policies:

Tracking Stock Policy Statement

Our board of directors bas fiduciary duties to all shareholders of WorldCom, and no independent fiduciary duties to the holders of WorldCom group stock and MCI group stock. Our board of directors has adopted a policy statement regarding the WorldCom group and the MCI group matters. Our board of directors or any special committee appointed by our board of directors, may, without shareholder approval, change the policies set forth in our policy statement. Our board of directors or any special committee appointed by our board of directors also may, without shareholder approval, adopt additional policies or make exceptions with respect to the application of the policies described in our policy statement in connection with particular facts and circumstances, all as they may determine to he in the best interests of WorldCom. The material provisions of the policy statement are as follows:

General Policy. The policy statement provides that all material matters as to which the holders of WorldCom group stock and MCI group stock may have potentially divergent interests will be resolved in a manner that our board of directors or any special committee appointed by our board of directors determines to be in the best interests of WorldCom as a whole, after giving due consideration to the potentially divergent interests and all other interests of the holders of the separate series of common stock of WorldCom that our board of directors or any special committee, as the case may be, deems relevant. The policy statement provides that we will manage the businesses in the WorldCom group and

(1) The Company and Significant Accounting Policies — (Continued)

the MCI group in a manner intended to maximize the operations, assets and values of both groups, and with complementary deployment of personnel, capital and facilities, consistent with their respective business objectives.

Under this policy statement, all material transactions which are determined by our board of directors to be in the ordinary course of business between the WorldCom group and the MCI group, except for those described in the paragraphs below, arc intended to be on terms consistent with terms that would be applicable to arm's-length dealings with unrelated third parties.

Cash Management. Decisions regarding the investment of surplus cash, the issuance and retirement of debt, and the issuance and repurchase of common and preferred stock will continue to be made by WorldCom management on behalf of the groups. Under this centralized cash management system, the MCI group will generally not be allocated any cash balances.

Corporate Allocations

Corporate allocations have been attributed and/or allocated to the WorldCom group or the MCI group based upon identification of the services specifically benefiting each group. Such corporate allocations may change at our discretion and do not require shareholder approval. Management believes that the allocation methodologies applied are reasonable and these methods have been consistently applied for all periods presented. However, it is not practical to determine whether the allocated amounts represent amounts that would have been incurred on a stand alone basis. Explanations of the composition and the method of allocation for such items are described below.

Shared Corporate Services. We have directly charged specifically identifiable costs to the WorldCom group and the MCI group. Where determinations based on specific usage alone were impracticable, we used other allocation methods that we believe are fair, including methods based on factors such as the number of employees and total line costs or revenues generated by each group. For the years ended December 31, 1999, 2000, and 2001, the MCI group was allocated $1.6 billion, $1.9 billion and $1.6 billion of these costs, respectively.

Commercial Inter-group Transactions. The MCI group is allocated a proportion, based on usage, of our fiber optic system costs for use of the fiber optic systems, which are attributed to the WorldCom group. For the years ended December 31, 1999, 2000 and 2001, fiber optic system costs allocated to the MCI group were $189 million, $373 million and $360 million, respectively. In addition, the WorldCom group is allocated a proportion, based on usage, of our switching costs for use of the business voice switched services, which are attributed to the MCI group and the MCI group is allocated a corresponding decrease to depreciation expense which, for the years ended December 31, 1999, 2000 and 2001, totaled ***$64*** million, $87 million and $101 million, respectively. Selling, general and administrative expenses for the MCI group include allocated costs for the MCI group's proportionate share of costs associated with buildings, furniture and fixtures attributed to the WorldCom group, and the cost allocated to the MCI group for use of the MCI tradenames as discussed below. For the years ended December 31, 1999,2000 and 2001, these allocated costs totaled $331 million, $254 million and $360 million, respectively.

(1) The Company and Significant Accounting Policies — (Continued)

All other material commercial transactions in the ordinary course of business between the groups are intended, to the extent practicable, to be on terms consistent with terms that would be applicable to arm's-length dealings with unrelated third parties and will be subject to the review and approval of our board of directors or any special committee. Neither group is under any obligation to use services provided by the other group, and each group may use services provided by a competitor of the other group if our board of directors or any special committee determines it is in the best interests of WorldCom as a whole.

Allocation of* Intangible *Assets. Intangible assets consist of the excess consideration paid over the fair value of net tangible assets acquired by us in business combinations accounted for under the purchase method and include goodwill, channel rights, developed technology and tradenames. These assets have been attributed to the respective groups based on specific identification and where acquired companies have been divided between the WorldCom group and the MCI group, the intangible assets have been attributed based on the respective fair values at date of purchase of the related operations attributed to each group. Management believes that this method of allocation is equitable and provides a reasonable estimate of the intangible assets attributable to the WorldCom group and the MCI group.

All tradenames, including the MCI tradename and the other related MCI tradenames, have been attributed to the WorldCom group. The MCI group will be allocated an expense, and the WorldCom group will be allocated a corresponding decrease in depreciation and amortization expense for the use of the MCI tradenames for the next four years based on the following fee schedule:

2002	$30.0 million
2003	$35.0 million
2004	$40.0 million
2005	$45.0 million

Any renewal or termination of use of the MCI tradenames by the MCI group will be subject to the general policy that our board of directors will act in the best interests of WorldCom. For each of the years ended December 31, 1999, 2000 and 2001, an expense of $27.5 million per annum was allocated to the MCI group for use of the MCI tradenames.

Financing Arrangements. As of January 1, 1999, $6.0 billion of our outstanding debt was notionally allocated to the MCI group and the remainder of our debt was notionally allocated to the WorldCom group. Our debt was allocated between the WorldCom group and the MCI group based upon a number of factors including estimated future cash flows and the ability to pay debt service and dividends of each of the groups. In addition, management considered certain measures of creditworthiness, such as coverage ratios and various tests of liquidity, in the allocation process. Our management believes that the initial allocation was equitable and supportable by both the WorldCom group and the MCI group. The debt allocated to the MCI group bears interest at a rate indicative of the rate at which the MCI group would borrow from third parties if it was a wholly owned subsidiary of WorldCom but did not have the benefit of any guarantee by WorldCom. Interest rates are calculated on a quarterly basis. Debt allocated to the MCI group bears an interest rate equal to the weighted-average interest rate, excluding capitalized interest, of WorldCom debt plus 1 1/4 percent. Interest allocated to the WorldCom group reflects the difference between our actual interest expense and the interest expense charged to the MCI

(1) The Company and Significant Accounting Policies — (Continued)

group. Subsequent to the recapitalization, each group's allocated debt increases or decreases by the amount of any net cash generated by, or required to fund, the group's operating activities, investing activities, dividend payments, share repurchases and other financing activities.

As of Dccember 31, 2001, our receivables purchase program consisted of a $3.7 billion pool of receivables in which the purchaser owned an undivided interest, including the $2.0 billion sold, of which $920 million and $273 million relate to the MCI group, respectively. The receivables sold were assigned based on specific identification where practical, or allocated based on total revenues. Our management believes that this method of allocation is equitable and provides a reasonable estimate of the receivables attributable to the groups.

Fair Value **of** Financial Instruments:

See Note 1 to our consolidated financial statements for additional fair value descriptions.

Cash and Cash Equivalents:

We consider cash in banks and short-tcrm investments with original maturities of three months or less as cash and cash equivalents.

Property and Equipment:

Property and equipment are stated at cost. Depreciation is provided for financial reporting purposes using the straight-line method over the following estimated useful lives:

Transmission equipment.	4 to 10 years
Communications equipment	5 to 10 years
Furniture, fixtures, buildings and other	4 to 39 years

We evaluate the recoverability of property and equipment when events and circumstances indicate that such assets might be impaired. We determine impairment by comparing the undiscounted future cash flows estimated to be generated by these assets to their respective carrying amounts. In the event an impairment exists on property and equipment attributed to the MCI group, a loss will be recognized by the MCI group based on the amount by which the carrying value exceeds the fair value of the asset. If quoted market prices for an asset are not available, fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on property and equipment to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

Maintenance and repairs are expensed as incurred. Replacements and betterments are capitalized. The cost and related reserves of assets sold or retired are removed from the accounts, and any resulting gain or loss is reflected in results of operations.

(1) The Company and Significant Accounting Policies — (Continued)

Goodwill and Other Intangible Assets:

The major classes of intangible assets attributed to the MCI group as of December 31, 2000 and 2001 are summarized below (in millions):

	Amortization Period	2000	2001
Goodwill	10 to 40 years	$9,274	$9,274
Developed technology	5 to 10 years	510	510
Other intangibles	5 to 10 years	1,113	1,443
		10,897	11,227
Less: accumulated amortization		(988)	(1,508)
Goodwill and other intangible assets, net		$ 9,909	$9,719

Intangible assets are amortized using the straight-line method for the periods noted above.

Goodwill is recognized for the excess of the purchase price of the various business combinations over the value of the identifiable net tangible and intangible assets acquired. Realization of acquisition-related intangibles, including goodwill, is periodically assessed by our management based on the current and expected future profitability and cash flows of acquired companies and their contribution to the overall operations of the MCI group.

Also included in other intangibles are costs incurred to develop software for internal use. Such costs were $356 million, $160 million and $325 million for the years ended December 31, 1999, 2000 and 2001, respectively.

Recognition of Revenues:

The MCI group records revenues for telecommunications services at the time of customer usage. Service activation and installation fees are amortized over the average customer contract life.

Accounting for Reciprocal Compensation and Other:

Reciprocal compensation represents a reimbursement of costs for call termination performed on behalf of other carriers' customers and is determined contractually based on fixed rate per minute charges to those carriers. Small business and consumer primary interexchange carrier charges, or PICC, are flat-rate charges mandated by the FCC which apply to telecommunications companies that connect to customers through a traditional phone company's facilities. Effective July 1, 2000, as a result of the FCC's Coalition for Affordable Local and Long Distance Services, or CALLs order, the PICC fee is billed directly to the customer by the traditional phone company rather than to MCI group and rebilled to the customer. Central office based remote access equipment sales represent the reimbursement of customer specific equipment costs incurred by MCI group on behalf of the customer as part of service provisioning. As such, we have determined that it is more appropriate to reflect these reimbursements of our cost as an offset to cost of sales rather than reporting these reimbursements on a gross basis as revenues. During the years ended Dccember 31, 1999, 2000 and 2001, such cost reimbursement amounts recorded by the MCI group totaled $817 million, $802 million and $366 million, respectively.

(1) The Company and Significant Accounting Policies — (Continued)

Cumulative Effect of Accounting Changes:

During the fourth quarter of 2000, the MCI group implemented SAB 101, which requires certain activation and installation fee revenues to be amortized over the average life of the related service rather than be recognized immediately. Costs directly related to these revenues may also be deferred and amortized over the customer contract life. As required by SAB 101, the MCI group retroactively adopted this accounting effective January 1, 2000, which resulted in a one-time expense of $10 million, net of income tax benefit of $7 million. The pro forma effect of adopting SAB 101 on periods prior to January 1, 2000 was not material to the MCI group's financial position or results of operations.

Income Taxes:

The federal and state income tax liabilities incurred by WorldCom and which are determined on a consolidated, combined, or unitary basis are allocated between the WorldCom group and the MCI group in accordance with our policy statement. The income tax expense or benefit for each group and the balance sheet allocation of the expense is based on a comparison of our tax expense with the hypothetical tax expense or benefit of the MCI group. The tax expense or benefit allocable to the MCI group is the amount that the MCI group would have incurred if it had filed tax returns as a separate taxpayer and the tax expense allocable to the WorldCom group is the excess, if any, of our tax expense over the tax expense or benefit allocable to the MCI group. Tax benefits that cannot be used by a group generating those benefits but can be used on a consolidated basis are credited to the group that generated those benefits. Had the WorldCom group and the MCI group filed separate tax returns, the provision for income taxes and net income for each group would not have significantly differed from the amounts reported on the group's combined statements of operations for the years ended December 31, 1999, 2000 and 2001. However, the amounts of current and deferred taxes and taxes payable or refundable attributed to each group on the historical financial statements may differ from those that would have been allocated had the WorldCom group or the MCI group filed separate income tax returns.

Deferred tax assets and liabilities are based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, and the impact of available net operating loss, or NOL, carryforwards.

Earnings Per Share:

Our consolidated financial statements present basic and diluted earnings (loss) per share for WorldCom group stock and MCI group stock using the two-class method. The two-class method is an earnings formula that determines the attributed earnings (loss) per share for WorldCom group stock and MCI group stock according to participation rights in undistributed earnings. The combined financial statements of the MCI group do not present earnings (loss) per share because MCI group stock is a series of our common stock, and the MCI group is not a legal entity with a capital structure.

For purposes of our consolidated financial statements, basic earnings (loss) per share attributed to MCI group stock is computed by dividing attributed net income (loss) for the period by the number of weighted-average shares of MCI group stock then outstanding. Diluted earnings (loss) per share attributed to MCI group stock is computed by dividing attributed net income (loss) for the period by

(1) The Company and Significant Accounting Policies— (Continued)

the weighted-average number of shares of MCI group stock outstanding, including the dilutive effect of MCI group stock equivalents.

Concentration of Credit Risk:

A portion of the MCI group's revenues is derived from services provided to others in the telecommunications industry, mainly resellers of long distance telecommunications service and Internet online services. As a result, the MCI group has some concentration of credit risk among its customer base. The MCI group performs ongoing credit evaluations of its larger customers' financial condition and, at times, requires collateral from its customers to support its receivables, usually in the form of assignment of its customers' receivables to the MCI group in the event of nonpayment.

Recently Issued Accounting Standards:

In June 2001, the FASB issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 141 requires business combinations initiated after June 30, 2001, to he accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against this new criteria and may result in certain intangibles being subsumed into goodwill, **or** alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. The statement includes provisions for the identification of reporting units for purposes of assessing potential future impairments of goodwill. Upon adoption, we stopped amortizing intangible assets with indefinite useful lives, including goodwill and tradenames. Based on current levels **of** such assets, this will reduce amortization expense by approximately **$0.3** billion annually at the MCI group. Additionally, we arc conducting impairment reviews of all intangible assets with indefinite useful lives and we expect to complete this assessment no later than the second quarter of 2002, in accordance with the provisions of SFAS No. 142. Based on our preliminary analyses, we estimate that as a result of **the** adoption of SFAS No. 142 we will reduce goodwill by approximately $1 billion at the MCI group.

In June 2001, the FASB issued SFAS No. 143 "Asset Retirement Obligations," which establishes new accounting and reporting standards for legal obligations associated with retiring assets. The fair value of a liability for an asset retirement obligation must be recorded in the period in which it is incurred, with the cost capitalized as part of the related long-lived assets and depreciated over the asset's useful life. Changes in the liability resulting from the passage of time will he recognized **as** operating expenses. SFAS No. 143 must he adopted by 2003. We have not yet quantified the impact of adopting SFAS No. 143 on our consolidated results of operations or financial position.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets," which supersedes both SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets for Long-Lived ***Assets*** to be Disposed ***Of,"*** and the accounting and reporting provisions for the disposal of a segment of a business contained in APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." **SFAS** No. **144** establishes a single accounting model for long-lived assets to be disposed **of** by sale and broadens the presentation of

(1) The Company and Significant Accounting Policies— (Continued)

discontinued operations. The provisions of **SFAS** No. 144 are effective beginning in 2002 and are not expected to have a material impact on our consolidated results of operations or financial position.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used when accounting for allowance for doubtful accounts, revenue reserves, depreciation and amortization, taxes and contingencies.

(2) Business **Combinations—**

We have acquired other telecommunications companies offering similar or complementary services to those offered by us. These acquisitions have been accomplished through the purchase of the outstanding stock or assets of the acquired entity for cash, notes, shares **of** our common stock, or a combination thereof. The cash portion of acquisition costs has generally been financed through our bank credit facilities.

On October 1, 1999, we acquired SkyTel Communications, Inc., pursuant to the merger of SkyTel with and into a wholly owned subsidiary of WorldCom. Upon consummation of the SkyTel merger, the wholly owned subsidiary was renamed SkyTel Communications, Inc. SkyTel is a leading provider of nationwide messaging services in the Untied States. SkyTel principal operations include one-way messaging services in the Untied States, advanced messaging services on the narrow band personal communications services network in the Untied States and international one-way messaging operations.

(2) Business Combinations — (Continued)

As a result of the SkyTel merger, each outstanding share of SkyTel common stock was converted into the right to receive 0.3849 shares of WorldCom common stock, par value $.01 per share, or approximately 23 million WorldCom common shares in the aggregate. Holders of SkyTel's $2.25 Cumulative Convcrtiblc Exchangeable Preferred Stock received one share of WorldCom Series C $2.25 Cumulative Convertible Exchangeable Preferred Stock for each share of SkyTel preferred stock held. The SkyTel merger was accounted for as a pooling-of-interests; and accordingly, our financial statements for periods prior to the SkyTel merger have been restated to include the results of SkyTel. SkyTel has been allocated to the MCI group.

During 1999, 2000 and 2001, we recorded other liabilities of $582 million, $29 million and $254 million, respectively, related to estimated costs of unfavorable commitments of acquired entities, and other non-recurring costs arising from various acquisitions and mergers. At December 31, 1999, 2000 and 2001, other liabilities attributed to the MCI group related to these and previously recorded accruals totaled $160 million, **$106** million and $53 million, respectively.

(3) Long-Term Debt—

Our outstanding debt as of Dccember 31, 2000 and 2001 consists of the following (in millions):

	2000	2001
Commercial paper and credit facilities	$ 3,629	$ —
Floating rate notes due 2001 through 2002	1,560	60
7.88% - 8.25% Notes Due 2003-2010	3,500	3,500
7.38% Notes Due 2006-2011	2,000	2,000
6.13% - 6.95% Notes Due 2001-2028	6,100	4,600
7.13% - 7.75% Notes Due 2004-2027	2,000	2,000
8.88% Senior Notes Due 2006	672	—
7.13% - 8.25% Senior Debentures Due 2023-2027	1,436	1,434
6.13% - 7.50% Senior Notes Due 2004-2012	1,934	1,925
6.50% - 8.25% Notes Due 2004-2031	—	11,939
Intermedia 11.25%-12.25% Senior Discount Notes Due 2007-2009	—	643
Intcrmedia 8.50%-9.50% Senior Notes Due 2007-2009	—	581
Capital lease obligations (maturing through 2017)	413	953
Embratel debt	1,134	—
Other debt (maturing through 2008)	518	575
	24,896	30,210
Notional debt allocated to the WorldCom group	(18,896)	(24,705)
Notional debt allocated to the MCI group	$ 6,000	$ 5,505

See Note 1 for a more detailed description of how we allocate debt to the groups and Note 4 of our consolidated financial statements for additional debt descriptions.

(4) Shareholder Rights **Plan—**

See Note 7 to our consolidated financial statements for a detailed description of our existing shareholder rights plan.

(5) Leases and Other **Commitments—**

WorldCom leases office facilities and equipment under non-cancelable operating and capital leases and is also obligated under various rights-of-way agreements having initial or remaining terms of more than one year and allocates rent expense on these leases attributable to the WorldCom group and the MCI group in accordance with our allocation policies. Rental expense allocated to the MCI group under these operating leases was $163 million, $189 million and $213 million in 1999, 2000 and 2001, respectively. The MCI group's rental expense in 2001 increased as a result of our movement of technical facilities closer to our customers which should result in lower access costs in the future and annual rent escalation.

The MCI group is an integrated business of WorldCom and is therefore subject to all our liabilities and obligations, including leases and other commitments. See Note 8 to our consolidated financial statements for a description of our leases and other commitments.

(6) Contingencies—

The MCI group shareholders are subject to all of the risks related to an investment in WorldCom and the MCI group, including the effects of any legal proceedings and claims against the WorldCom group. See Note 9 to our consolidated financial statements for information related to our contingencies.

(7) Employee Benefit **Plans—**

Stock Option **Plans:**

WorldCom has several stock option plans under which options to acquire shares of WorldCom group stock may be granted to directors, officers and employees of the WorldCom group and the MCI group. We do not maintain a plan for the issuance of MCI group stock options. WorldCom accounts for these plans under APB Opinion No. 25, under which no compensation cost is recognized. Terms and conditions of WorldCom's options, including exercise price and the period in which options are exercisable, generally are at the discretion of the Compensation and Stock Option Committee of our board of directors; however, no options are exercisable for more than 10 years after date of grant.

401(k) Plans:

WorldCom offers our qualified employees the opportunity to participate in one of our defined contribution retirement plans qualifying under the provisions of Section 401(k) of the Internal Revenue Code. Each employee may contribute on a tax deferred basis a portion of annual earnings not to exceed $10,500. WorldCom matches individual employee contributions in selected plans, up to a maximum level which in no ease exceeds 6% of the employee's compensation. Expenses allocated to the MCI group relating to our 401(k) plans were $63 million, $68 million and $56 million for the years ended December 31, 1999, 2000 and 2001, respectively.

(7) Employee Benefit Plans — (Continued)

Pension and Other Post-retirement Benefit Plans:

We maintain various defined benefit plans and other post-retirement benefit plans that cover selected eligible employees of the WorldCom group and the MCI group. Annual service cost is determined using the Projected Unit Credit actuarial method, and prior service cost is amortized on a straight-line basis over the average remaining service period of employees.

Employee Stock Purchase Plan:

Effective July 1, 2001, we established the MCI group 2001 Employee Stock Purchase Plan under Section 423 of the Code which allows eligible MCI group employees to purchase shares of the MCI group stock through payroll deductions not to exceed 15% of the employee's compensation. The purchase price is 85% of the lower of the fair market value of the MCI group stock on the participant's enrollment date or the exercise date. A maximum of 10 million shares of MCI group stock are authorized for issuance. During 2001 shares totaling 346,000 were issued at an average price of $13.10 per share.

See Notes 10 and 11 to our consolidated financial statements for additional disclosures related to employee benefit plans.

(8) Income Taxes—

The MCI group combined balance sheets reflects the anticipated tax impact of future taxable incomc or deductions implicit in the combined balance sheets in the form of temporary differences. These temporary differences reflect the difference between the basis in the assets and liabilities for financial reporting purposes and amounts used for income tax purposes and the impact of available NOL carryforwards as measured in the MCI group's combined financial statements and as measured by tax laws using enacted tax rates.

Income tax expense (benefit) is composed of the following (in millions):

	1999	2000	2001
Current	$ 716	$ 796	$ 11
Deferred	393	239	(27)
Total income tax expense (benefit)	$1,109	$1,035	$ (16)

(8) Income Taxes — (Continued)

The following is a reconciliation of income tax provision to the expected amounts using the statutory rate:

	1999	2000	2001
Expected statutory amount	35.0%	35.0%	(35.0)%
Nondeductible amortization of excess of cost over net tangible assets acquired	3.0	3.1	193.9
State income taxes	2.5	2.6	5.0
Tax credits	(0.2)	(0.4)	(59.4)
Other	(0.1)	(0.5)	(145.5)
Actual tax provision	40.2%	39.8%	(41.0)%

The following is a summary of the significant components of the MCI group's attributed deferred tax assets and liabilities as of December 31, 2000 and 2001 (in millions):

	2000		2001	
	Assets	Liabilities	Assets	Liabilities
Fixed assets	$ —	$ (822)	$ —	$ (1,092)
Goodwill and other intangibles	45	—	41	—
Accrued liabilities	—	(102)	46	—
NOL carryforwards	—	—	129	—
Tax credits	68	—	10	—
Other	—	(76)	6	—
	$ 113	$ (1,000)	$ 232	$ (1,092)

P December 31, 2001, the MCI group was attributed unused NOL carryforwar for federa income tax purposes of approximately $340 million which expire in various amounts during the year 2021. These NOL carryforwards result in a deferred tax asset of approximately $129 million at December 31, 2001.

(9) Supplemental Disclosure of Cash Flow Information —

Interest paid by the MCI group during the years ended December 31, 1999, 2000 and 2001 amounted to $490 million, $564 million and $501 million, respectively. Income taxes paid, net of refunds, during the years ended December 31, 1999 and 2000 were $71 million and $424 million, respectively. No income taxes were paid during the year ended December 31, 2001.

(9) Supplemental Disclosure of Cash Flow Information — (Continued)

In conjunction with business combinations attributed to the MCI group, assets acquired and liabilities assumed, including revisions to previously recorded acquisitions, were as follows (in millions):

	1999	2000	2001
Fair value of assets acquired	$154	$—	$—
Goodwill and other intangible assets	190	—	—
Liabilities assumed	(52)	—	—
WorldCom common stock issued	—	—	—
Net cash paid	$292	$—	$—

(10) Segment and Geographic Information —

Based on our organizational structure, the MCI group operates in four reportable segments: Consumer; Wholesale; Alternative channels and small business; and Dial-up Internet. The MCI group's reportable segments represent business units that primarily offer similar products and services; however, the business units are managed separately due to the type and class of customer as well as the geographic dispersion of their operations. Consumer includes domestic voice communications services for consumer customers. Wholesale includes domestic long distance voice and data communications services for wholesale customers. Alternative channels and small business includes domestic long distance voice and data, agents, prepaid calling cards and paging services provided to alternative wholesale and small business customers. Dial-up Intcrnct includes dial-up Internet access services.

Our chief operating decision-maker utilizes revenue information in assessing performance and making overall operating decisions and resource allocations. Communications services are generally provided utilizing WorldCom's fiber optic networks, which do not make a distinction between the types of services provided. Profit and loss information is reported only on a combined basis to our chief operating decision-maker and our board of directors.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Information about the MCI group's segments is as follows (in millions):

	Revenues From External Customers			Selling. General and Administrative			Capital Expenditures		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Consumer	$ 7,590	$ 7,778	$ 7,227	$3,275	$2,823	$2,968	$235	$146	$ 89
Wholesale	3.943	3.388	2.641	620	538	617	192	94	32
Alternative channels and small business	3,142	3,541	2,427	808	1,030	1,092	182	75	109
Dial-up Internet	1,497	1,628	1,536	368	426	537	178	185	37
Corporate—other charges	—	—	—	—	345	134	—	—	—
Total	$16,172	$16,335	$13,831	$5,071	$5,162	$5,348	$787	$500	$267

(10) Segment and Geographic Information— (Continued)

The following is a reconciliation of the segment information to income (loss) before income taxes and cumulative effect of accounting change (in millions):

	1999	2000	2001
Revenues	$16,172	$16,335	$13,831
Operating expenses	12,915	13,223	13,366
Operating income	3,257	3,112	465
Other income (expense):			
Interest expense	(506)	(512)	(504)
Miscellaneous	5	—	—
Income (loss) before income taxes and cumulative effect of accounting change	$ 2,756	$ 2,600	$ (39)

Information about the MCI group's operations by geographic areas are as follows (in millions):

	1999		2000		2001	
	Revenues	Long-lived Assets	Revenues	Long-lived Assets	Revenues	Long-lived Assets
United States	$15,961	$2,330	$16,066	$2,173	$13,650	$1,967
International	211	61	269	73	181	50
Total..	$16,172	$2,391	$16,335	$2,246	$13,831	$2.017

(11) Related Party **Transactions—**

See Note 16 to our consolidated financial statements for information pertaining to our related party transactions.

(12) Unaudited Quarterly Financial **Data—**

	Quarter Ended							
	March 31,		June 30,		September 30,		December 31,	
	2000	2001	2000	2001	2000	2001	2000	2001
	(in millions)							
Revenues.	$4,183	$3,622	$4,186	$3,548	$4,193	$3,484	$3,773	$3,177
Operating inmme (loss).	1,034	231	1,023	74	713	181	342	(21)
Income (loss) before cumulative effect of accounting change	547	62	541	(29)	352	33	125	(89)
Net income (loss)	537	62	541	(29)	352	33	125	(89)

EXHIBIT INDEX

2.1* Agreement and **Plan** of Merger between WorldCom, Wildcat Acquisition Corp. and Intermedia Communications Inc. dated as amended May 14, 2001 (filed as Annex A to WorldCom's Registration Statement on Form S-4, Registration No. 333-60482 and incorporated herein by reference)

3.1 Articics of Amendment to the Second Amended and Restated Articles of Incorporation of WorldCom (amending former Article Seven by inserting Articles Seven D, E, F, and G) (incorporated herein by reference to Exhibit 3.1 to WorldCom's registration statement on Form S-8 dated August 22, 2001 (Registration No. 333-68204))

3.2 Articles of Amendment to the Second Amended and Restated Articles of Incorporation of WorldCom (amending former Article Four by deleting the text thereof and substituting new Article Four) (incorporated herein by reference to Exhibit 3.2 to WorldCom's registration statement on Form S-8 dated August 22, 2001 (Registration No. 333-68204))

3.3 Articles of Amendment to the Second Amended and Restated Articles of Incorporation of WorldCom (amending former Article Eleven by deleting the text thereof and substituting new Article Eleven) (incorporated herein by reference to Exhibit 3.3 to WorldCom's registration statement **on** Form S-8 dated August 22, 2001 (Registration No. 333-68204))

3.4 Second Amended and Restated Articles of Incorporation of WorldCom (including preferred stock designations), **as** amended as of May 1, 2000 (incorporated herein by reference to Exhibit 3.4 to WorldCom's registration statement on Form S-8 dated August 22, 2001 (Registration **No.** 333-68204))

**

3.5 Restated ByLaws of WorldCom, Inc. (incorporated by reference to Exhibit 3.5 to WorldCom's registration statement on Form S-8 dated August 22, 2001 (Registration No. 333-68204))

4.1 Rights Agreement between WorldCom, Inc. and The Bank of New York, as Rights Agent, dated as of March 7, 2002 (incorporated herein by reference to Exhibit 1 to WorldCom's Form **8-A** dated March 13, 2002 (File **No.** 0-11258))

10.1* 364-Day Revolving Credit Agreement among WorldCom and Bank of America, N.A. and The Chase Manhattan Bank, Co-Administrative Agents; Banc of America Securities LLC and J.P. Morgan Securities Inc., Joint Lead Arrangers and Joint Book Managers; Banc of America Securities LLC, J.P. Morgan Securities Inc., Salomon Smith Barney Inc., **ABN** Amro Bank N.V. and Deutsche Banc Alex. Brown Inc., Co-Arrangers; Citibank, N.A., Syndication Agent; **ABN** Amro Bank N.V. and Deutsche Bank AG New York Branch, Co-Documentation Agents; and the lenders named therein dated as of June 8, 2001 (incorporated herein by reference to Exhibit 10.1 to WorldCom's Current Report on Form 8-K dated June 8, 2001 (filed June 12, 2001) (File No. 0-11258))

10.2* Revolving Credit Agreement among WorldCom and Bank of America, N.A. and The Chase Manhattan Bank, Co-Administrative Agents; Banc of America Securities LLC and J.P. Morgan Securities Inc., Joint Lead Arrangers and Joint Book Managers; Banc of America Securities LLC, J.P. Morgan Securities Inc., Salomon Smith Barney Inc., **ABN** Amro Bank N.V. and Deutsche Banc Alex. Brown Inc., Co-Arrangers; Citibank N.A., Syndication Agent; ABN Amro Bank N.V. and Deutsche Bank AG New York Branch, Co-Documentation Agents; and the lenders named therein dated as of June 8, 2001 (incorporated herein by reference to Exhibit 10.2 to WorldCom's Current Report on Form 8-K dated June 8, 2001 (filed June 12, 2001) (File No. 0-11258))

10.3*	Amended and Restated Facility A Revolving Credit Agreement among WorldCom, NationsBank, N.A., NationsBanc Montgomery Securities LLC, Bank of America NT & SA, Barclays Bank PLC, The Chase Manhattan Bank, Citibank, N.A., Morgan Guaranty Trust Company of New York, and Royal Bank of Canada and the lenders named therein dated as of August 6, 1998 (incorporated herein by reference to Exhibit 10.1 to WorldCom's Current Report on Form 8-K dated August 6, 1998 (filed August 7, 1998) (File No. 0-011258)) (incorporated herein by refcrence to Exhibit 10.3 to WorldCom's Current Report on Form 8-K dated June 8, 2001 (filed June 12, 2001) (File No. 0-11258))
10.4	WorldCom 1999 Stock Option Plan (incorporated herein by reference to Exhibit A to WorldCom's Proxy Statement dated April 23, 1999 (File No. 0-11258)) (compensatory plan)
10.5	WorldCom, Inc. Third Amended and Restated 1990 Stock Option Plan (incorporated herein by reference to Exhibit A to WorldCom's Proxy Statement dated April 22, 1996 (File No. 0-11258)) (compensatory plan)
10.6	WorldCom, Inc. Performance Bonus Plan (incorporated herein by reference to Exhibit A to WorldCom's Proxy Statement dated April 21, 1997 (File No. **0**- 11258)) (compensatory plan)
10.7	WorldCom/MFS/UUNET 1995 Performance Option Plan (incorporated herein by reference to Exhibit 10.17 to WorldCom's **Annual** Report on Form 10-K for the period ended December 31, 1996 (File No. 0-11258)) (compensatory plan)
10.8	WorldCom/MFS/UUNET Equity Incentive Plan (incorporated herein by reference to Exhibit 10.18 to WorldCom's Annual Report on Form 10-K for the period ended December 31, 1996 (File No. 0-1 1258)) (compensatory plan)
10.9	MCI 1979 Stock Option Plan **as** amended and restated (incorporated by reference to Exhibit 10(a) to MCI's Annual Report on Form 10-K for the fiscal year ended December 31,1988 (File No. 0-6457)) (compensatory plan)
10.10	Supplemental Retirement Plan for Employees of MCI Communications Corporation and Subsidiaries, **as** amended (incorporated by reference to Exhibit 10(b) to MCI's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (File No. 0-6457)) (compensatory plan)
10.11	Description of Executive Life Insurance Plan for MCI Communications Corporation and Subsidiaries (incorporated by reference to "Remuneration of Executive Officers" in MCI's Proxy Statement for its 1992 Annual Meeting of Stockholden (File No. 0-6457)) (compensatory plan)
10.12	MCI Communications Corporation Executive Incentive Compensation Plan (incorporated by reference to Exhibit **10(e)** to MCI's Annual Report on Form **10-K** for the fiscal year ended December **31,** i995 (File No. 0-6457)) (compensatory plan)
10.13	Amendment No. 1 to MCI Communications Corporation Executive Incentive Compensation Plan (incorporated by reference to Exhibit **10(e)** to MCI's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-6457)) (compensatory plan)
10.14	1988 Directors' Stock Option Plan of MCI (incorporated by reference to Exhibit D to MCI's Proxy Statement for its 1989 Annual Meeting of Stockholders (File No. 0-6457)) (compensatory plan)
10.15	Amendment No. 1 to the 1988 Directors' Stock Option Plan of MCI (incorporated by reference to Appendix D to MCI's Proxy Statement for its 1996 Annual Meeting of Stockholders (File No. 0-6457)) (compensatory plan)
10.16	Amendment No. 2 to 1988 Directors' Stock Option Plan of **MCI** (incorporated by reference to Exhibit 10(i) to MCI's Annual Report on Form 10-K for the fiscal year ended December 31, 1996) (File No. 0- 6457)) (compensatory plan)

10.17 Amendment No. 3 to 1988 Directors' Stock Option Plan of MCI (incorporated by reference to Exhibit 10(j) to MCI's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-6457)) (compensatory plan)

10.18 Stock Option Plan of MCI (incorporated by reference to Exhibit C to MCI's Proxy Statement for its 1989 Annual Meeting of Stockholders (File No. 0-6457)) (compensatory plan)

10.19 Amendment No. 1 to the Stock Option Plan of MCI (incorporated by reference to Exhibit 10(l) to MCI's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-6457)) (compensatory plan)

10.20 Amendment No. 2 to the Stock Option Plan of MCI (incorporated by reference to Appendix B to MCI's Proxy Statement for its 1996 Annual Meeting of Stockholders (File No. 0-6457)) (compensatory plan)

10.21 Amendment No. 3 to the Stock Option Plan of MCI (incorporated by reference to Exhibit 10(n) to MCI's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-6457)) (compensatory plan)

10.22 Amendment No. 4 to the Stock Option Plan of MCI (incorporated by reference to Exhibit 10(o) to MCI's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-6457)) (compensatory plan)

10.23 Amendment No. 5 to the Stock Option Plan of MCI (incorporated by reference to Exhibit 10(p) to MCI's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-6457)) (compensatory plan)

10.24 Board of Directors Deferred Compensation Plan of MCI (incorporated by reference to Exhibit 10(i) to MCI's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 (File No. 0-6457)) (compensatory plan)

10.25 The Senior Executive Incentive Compensation Plan of MCI (incorporated by reference to Appendix A to MCI's Proxy Statement for its 1996 Annual Meeting of Stockholders (File No. 0-6457)) (compensatory plan)

10.26 Amendment No. 1 to the Senior Executive Incentive Compensation Plan of MCI (incorporated by reference to Exhibit 10(s) to MCI's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-6457)) (compensatory plan)

10.27 Executive Severance Policy (incorporated by reference to Exhibit 10(a) to MCI's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996 (File No. 0-6457)) (compensatory plan)

10.28 Form of employment agreement, effective as of November 2, 1996, between MCI and Bert C. Roberts (incorporated by reference **to** Exhibit 10(u) to MCI's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-6457)) (compensatory plan)

10.29 Employment Agreement between UUNET and John W. Sidgmore dated May 13, 1994 (incorporated herein by reference to UUNET's Registration on Form S-1 (Registration No. 33-91028)) (compensatory plan)

10.30 Change of Control Severance Agreement effective April 8, 1997 between Brooks Fiber Properties, Inc. ("BFP') and James C. Allen (incorporated herein by reference from Exhibit 10.1 to BFP's Quarterly Report on Form 10-Q **for** the quarterly period ended June 30, 1997 (File No. 0-28036)) (compensatory plan)

10.31 Promissory Note dated September 8, 2000 between Bernard J. Ebbers (the "Borrower") and WorldCom (incorporated herein by reference from Exhibit 10.4 to the WorldCom's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000) (File No. 0-11258)

10.32 Promissory Note dated November 1, 2000 between the Borrower and WorldCom (incorporated herein by reference from Exhibit 10.5 to WorldCom's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000) (File No. 0-11258)

10.33 Letter Agreement dated November 1, 2000 between the Borrower and WorldCom (incorporated herein by reference from Exhibit 10.6 to WorldCom's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000) (File No. 0-11258)

10.34 Limited Guaranty made **as** of November 14,2000 by WorldCom in favor of Bank of America, N.A. (incorporated herein by reference from Exhibit 10.7 to WorldCom's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000) (File No. 0-11258)

10.35 Limited Guaranty made **as** of February 12, 2001 by WorldCom in favor of Bank of America, N.A. (incorporated herein by reference from Exhibit 10.35 to WorldCom's Annual Report on Form 10-K for the year ended December 31, 2000) (File No. 0-11258)

10.36 Promissory Note dated December 29, 2000 between the Borrower and WorldCom (incorporated herein by reference from Exhibit 10.36 to WorldCom's **Annual** Report on Form 10-K for the year ended December 31, 2000) (File No. 01-11258)

10.37 Promissory note dated September 10, 2001 payable by Borrower to the order **of** WorldCom (incorporated herein by reference to Exhibit 10.1 to WorldCom's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001) (File No. 0-11258)

10.38 First Modification and Reaffirmation of Limited Guaranty dated **as** of January 25, 2002, by and between WorldCom and Bank of America, **N.A.**

10.39 Promissory Note dated January 30, 2002 payable by Borrower to the order of WorldCom

21.1 Subsidiaries **of** WorldCom

23.1 Consent of Arthur Andersen LLP

---

* The registrant hereby agrees to furnish supplementally a copy of any omitted schedules to this Agreement to the SEC upon request.

** No other long-term debt instruments are filed since the total amount of securities authorized under any such instrument does not exceed ten percent of the total assets of WorldCom and its subsidiaries on a consolidated basis. WorldCom agrees to furnish a copy of such instruments to the SEC upon request.

ATTACHMENT G

Statement of John W. Sidgmore, President and CEO of WorldCom Inc.
Before the Committee on Commerce, Science and Transportation, U.S. Senate
July 30,2002

STATEMENT OF

JOHN W. SIDGMORE

PRESIDENT & CHIEF EXECUTIVE OFFICER

WORLDCOM, INC.

BEFORE THE

COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION

UNITED STATES SENATE

JULY 30, 2002

My name is John Sidgmore. I am the President and Chief Executive Officer of WorldCom, Inc. I am proud to be leading a team of 60,000 people who are working hard to support our 20 million-plus customers.

I am here this morning to discuss the state of the telecommunications industry, including the events that led up to WorldCom's recent filing under Chapter 11 of the Bankruptcy Code. WorldCom has obviously been through a difficult period recently, but we are determined to overcome our problems and to move forward. We are intensely focused on ensuring that all of our customers – consumer, business and government -- continue to receive the highest quality service without disruption. At the same time, we are planning for the future. We are committed to emerging from this process a stronger company with its competitive spirit intact.

Mr. chairman, I've spent over twenty years in the information services and telecommunications industries. I've been honored to serve in several senior posts during that time, including a stint as Vice President at General Electric Information Services in the days before the Internet and as CEO of UUNET Technologies, which was the first commercial provider of Internet services.

That 20-year span has marked a tumultuous time in the industry's history, with many ups and downs. What we're witnessing today, however, is unprecedented. Clearly, the entire. industry is experiencing severe problems. While many competitive companies have experienced difficulties – many have gone out of business – it's important to emphasize that competition is alive. I strongly believe that those companies that survive this bleak period will, as the result of vigorous competition, continue to bring product innovation and consumer savings to the marketplace. That will be hue, however, only if federal and state regulators complete their implementation of the Telecommunications Act of 1996 and fully enforce this historic law.

INTRODUCTION

In April, when I agreed to take over as CEO of WorldCom, it was clear that both our industry and our company faced significant challenges. I knew then that, among other things, the company was shuggliig under the weight of $30 billion in debt. But I never imagined what else was in store for us. I could not have imagined *that* in June we would uncover and publicly disclose significant, past accounting irregularities Nor could I have imagined that about one month later WorldCom would file for relief under Chapter 11. As I will explain, there was a direct link between these events.

WorldCom announced on June 25,2002 that the company misstated its earnings for 2001 and the first quarter of 2002. While the misdeeds we uncovered occurred before I became CEO, I want to apologize again on behalf of everyone at WorldCom. WorldCom's new management team and our employees share the public's outrage over these events. You have my commitment to continue to do everything possible to obtain the facts, to fully cooperate with investigators' efforts to bring wrongdoers to justice, to develop safeguards to prevent such an event from recurring in the future, and to operate this company according to the highest commercial and ethical standards. Every effort will be made to ensure the long-term viability of this great company.

Saving this company is what led to the decision to file a voluntary petition under Chapter 11 on July 21. We fought hard to avoid doing so, but our need to restate. earnings virtually eliminated other debt restructuring options previously available to us. Of all the options we examined, none could accomplish our goal of restoring corporate.health as effectively. In the end, we believe that this process, while painful, is the best way to help the most people. Most importantly, it enables us to maintain quality customer service without disruption and it provides the best alternative for preserving the maximum number of jobs.

We have every intention of overcoming the challenges now facing us. We will operate our business normally while focusing on our business plan and getting our finances in order. We intend to emerge from Chapter 11 as soon as possible as a strong and healthy competitor.

TELECOMMUNICATIORS INDUSTRY COMPETITION ALIVE BUT AT RISK

Any analysis of the telecommunications industry today must begin with an acknowledgment of the significance of the 1996 Act, which created a sea change in the regulatory paradigm governing the telecommunications sector in this country. For the first time, the last-mile monopolies were opened to all forms of local competition -- facilities-based, elements-based, and resale-based -- and the competitive industry responded in kind. Hundreds of new competitors entered the marketplace and the capital markets financed their entry

Investment in the telecommunications sector was driven by two fundamental factors: vibrant new competition and expectations of burgeoning customer demand. Competitive local exchange carriers (CLECs) poured tens of billion? of dollars into the deployment of new telecommunications facilities and services. It's estimated that CLECs invested some *$55* billion during the four years following the passage of the Act. While much of this money went into building thousands of miles of new fiber-based networks, CLECs also invested in network elements leased from the incumbents, or purchased retail services at wholesale rates. Moreover, the Bell companies and other incumbent local exchange carriers (ILECs) responded with significant new investment of their own -- over $100 billion during that *same* time period. Thus, the Act helped spur investment by competitors and incumbents *alike.*

As the 1990s wound down, however, the sector began to experience some significant problems. The market version of a "perfect storm" - a slowing national economy, plummeting prices and excess network capacity – was brewing and became more real with each *passing* month. The bursting of the "dot-cam" bubble made matter. worse. Many of the "dot-cam" companies were among the largest users of high-capacity data services.

In sum, an unprecedented number of competitors were fighting for a diminishing number of customers and available revenue. Customer demand never materialized to the extent expected. Dozens of providers began to curtail service or go out of business. It was a case of fundamental, supply-and-demand economics. The downward spiral created by the "storm" remains an issue for the industry.

Aside from pure economics, other factors *also* were at work. In particular, the incumbent Bell companies fought aggressively to thwart or retard implementation of the 1996 Act -- a statute they had sought and supported. Whether filing court challenges to the very constitutionality of the Act, or slow-rolling the negotiation process for network interconnection, or refusing to pay CLECs for services rendered, the Bells did everything in their power to obstruct the development of competition.

The economic "storm," exacerbated by anticompetitive Bell activity, was further complicated by the incomplete or unsatisfactory implementation of the Act by some regulators. On the positive side, early Federal Communications Commission (FCC) decisions, such as the ***Local Competition Order*** and the first 271 decisions (regarding approval of Bell company entry into the long distance market), laid out a rational and well-crafted blueprint both for competitive entry into local markets, and for Bell company entry into long distance markets. Many states, such as New York, Texas, California, and Illinois, took the lead in implementing pro-competitive rules.

Unfortunately, just as the "storm" began to hit, public policy progress began to slow, as the Bell companies fought back against these laudable reform efforts. Today, CLECs still lack some of the fundamental tools promised by the 1996 Act, and several proposals at the FCC – as well as legislation pending before this Committee – threaten to turn back the important progress achieved thus far.

There is some *good* news: the competitive telecommunications sector, while wounded and bleeding, is far from dead. Amazingly enough, despite the unprecedented economic turmoil engulfing the industry:

- CLECs still managed to invest over $12 billion in 2001, bringing total competitive industry-wide capital investment to over *$65* billion since passage of the Act.

- CLEC share of the local market continues to rise, slowly but steadily. According to the FCC's latest figures – released just a week ago and based on end-of-year 2001 numbers -- while the ILECs control some 173 million switched access lines serving *end* user customers, CLECs now have almost 20 million lines, or 10.2 percent of the total in service. This compares favorably to just under 15 million access lines, and 7.7 percent market share, at the end of 2000.

- Of those CLEC lines, about 30 percent are provisioned over the CLEC's own last-mile facilities, 47 percent by means of unbundled network element ("UNE") loops, including the UNE-Platform, leased from other carriers, and 22 percent by reselling the services of other carriers. Thus, CLECs continue to build out their networks, and sign up new customers, using all three market entry methods stipulated by *Congress.*

Another positive note: the FCC's critical statutory role in fostering local competition also has been confirmed by the Supreme Court. First in 1999 and again earlier this year, the Court firmly endorsed the FCC's pro-competitive authority under the Act. In particular, the May 2002 decision upholding the so-called "TELRIC" costing standard swept away much of the economic mythology being generated by the incumbents, and confirms that competition is best built on the framework of a forward-looking costing methodology.

In addition, competitive companies continue to bring innovative products to market that benefit all customers. In April, WorldCom's MCI unit launched ***The Neighborhood,*** a suite of products that offers residential consumers a "bundle" of services – local and long distance calling, plus features such as voice mail, Caller ID and call waiting – all for one flat monthly price: about $50 in most states. Consumer response to ***The Neighborhood*** has been amazing. It confirms the pent-up demand across the country for the same kinds of value and choices in the local market *that* they have enjoyed in the long distance and online spaces for many years. Now available in thirty-four states and the District of Columbia, ***The Neighborhood*** will be available in almost all states by the first quarter of next year.

In WorldCom's view, there is a light at the end of this tunnel; there will be a return to prosperity in this industry. Our view assumes that Congress does not undermine the pro-competition policies of the Act by adopting legislation that would effectively repeal them. It further assumes that the FCC accepts the overwhelming consensus of both consumers and competitors regarding ILEC "deregulation" proposals now pending before the Commission. The 1996 Act sets the right policy direction It is critical that the FCC finish the job of implementing the Act and enforce the Act aggressively. If it does, the industry will once again flourish and consumers will continue to benefit

WORLDCOM: OVERCOMING CHALLENGES & MOVING FORWARD

Again, Mr. chairman, I am confident that if the Visionary policies embodied in the Act are carried forward, the telecommunications marketplace of the future will be characterized by vigorous competition and even greater benefits for consumers. To fully appreciate the promise of the future, it's often helpful to consider the experience of the past. WorldCom's legacy – and that of its key operating units, MCI and UUNET – is unmatched.

WorldCom's Pro-Competition Legacy and Industry Leadership

MCI and UUNET literally changed the face of an entire industry. MCI pioneered competition in the long distance industry, the first company to attack the old Bell System's monopoly. UUNET was the first commercial provider of Internet services. Indeed, both companies played leading roles in the development of the Internet. No other company in the world has the legacy that we do in promoting competition.

Unlike virtually every other major telecom frm, WorldCom was never a monopoly. Our company had to compete for every customer we have and today we have the privilege of serving over 20 million customers. A company with $30 billion in annual revenues and 60,000-plus employees, WorldCom is:

- The second largest long distance company in the U.S.;
- The largest competitive provider of local telephone services;
- The largest carrier of international voice traffic; and
- The world's largest Internet services provider.

WorldCom clearly has been, and continues to be, an industry leader. We have been blessed with world-class employees whose great ideas and marketing savvy have produced innovative services and consumer savings. *The Neighborhood* is the latest innovation we've brought to the marketplace. Our competitors are scrambling to match us. And that really makes the point – when we innovate, all consumers benefit. Savings may be the ultimate measure of our success and our continuing value to the marketplace. Since MCI introduced competition to the old Bell System, residential, business and government users have saved many tens of billions of dollars.

Millions of people have a real *stake* in WorldCom's survival – our customers, our employees, our suppliers and our creditors. It is worth noting that WorldCom is a provider of network services for critical applications for the United States government. These applications include the provision of customer service to 80 million Social Security beneficiaries, air traffic control applications for the Federal Aviation Administration, network management for the Department of Defense, and critical data network services for the U.S. Postal Service. In addition, WorldCom provides long distance voice and data communications services for the House, the Senate, and the General Accounting Office. Our company provides those *same* kinds of services for virtually every government agency under its FTS2001 contract. In addition, WorldCom provides support for law enforcement and homeland security agencies, as well as agencies concerned with national security.

In other words, WorldCom is a key component of our nation's economy and Communications infrastructure. Both commercial and national security interests rely upon WorldCom's operations continuing without disruption.

In that regard, I would like to commend FCC Chairman Michael Powell for his efforts to reassure a nervous marketplace. The FCC has a critical role to play in ensuring the continuing integrity of the nation's communications network WorldCom takes its own legal and regulatory responsibilities very seriously. I can assure this Committee that we will continue to work closely with the Commission to ensure that customers will not suffer adverse consequences as a result of our current financial status.

Financial Crisis at WorldCom

Despite all the good things WorldCom had going for it, when I became CEO in April, WorldCom was a very troubled company. The sluggish economy and a variety of industry *issues* had caused a steep decline in the company's revenues, and the company was struggling to deal with its massive $30 billion debt load. The debt load alone required more than $2 billion a year in interest payments.

Notwithstanding these financial challenges, I truly felt that WorldCom could get back on the right track through a series of aggressive moves designed to reshape the company and restructure our debt without the need for a Chapter 11 proceeding. On June. 14, at the annual meeting of WorldCom's shareholders, I set forth my blueprint for the future.

As part of that plan, WorldCom would sell or eliminate unprofitable lines of business. To that end, we began the sale of WorldCom's wireless resale service, largely by selling our customers to the underlying carrier providing the service.

We also continued to bring expenses in line with revenue. For a number of years, WorldCom's workforce had been increasing in anticipation of continued growth and we had, frankly, gotten far too big for the revenues that we were generating. Thus, we embarked on a plan to eliminate 17,000 from our workforce, including through attrition, the *sale* of non-core assets, and the discontinuation of contract services that were no longer required

Together, shutting down our wireless **resale unit** and reducing our employee base will save WorldCom about $1.8 billion **per** year.

Even with **those** savings, however, WorldCom still needed to restructure its debt. Although not easy, **we** were beginning to have some **success** in accomplishing **this as well.** We negotiated a $1.5 billion accounts receivable securitization program with **several** of our lenders to replace a similar facility that was expiring. We **were** also engaged in productive negotiations with a consortium of banks on providing us with a **new** $5 billion credit facility that would have enabled us ***to*** operate without **concern** of bankruptcy for at least several more years while we got **the rest** of **our financial house** in order.

Unfortunately, WorldCom's world changed for the **worse** on June 25th.

Disclosure of Accounting Irregularities and the Need to Restate Earnings

When we disclosed ***the*** need to restate earnings for 2001 and the first quarter of **2002** on June 25, we committed to deal with this matter openly, expeditiously and responsibly. ***As*** I will outline below, we have done so.

Let me remind you at the outset, however, that WorldCom uncovered this problem internally. Our external auditor at that time was Arthur Andersen. In effect, we audited our external auditor and we found what they missed.

WorldCom is being proactive. Our actions are guided by our commitment to restore public confidence in this great company and to operate WorldCom according to the highest standards of ethics and integrity. To that end, we have taken several specific actions:

- When this matter was brought to its attention, our Board of Directors moved swiftly and decisively. Its actions included terminating our Chief Financial Officer and promptly reporting the matter to the Securities and Exchange Commission (SEC) and to the public.

- We are cooperating fully with the various official investigations -- by the SEC, the Department of Justice and the Congress. For example, on July 1,2002, we filed a written statement with the SEC that included a summary of key events, known to us at that time, that led to our June 25th announcement. At the SEC's request, a revised statement was filed on July 8. A copy of the revised statement is available on two websites: the SEC's [www.sec.gov/] and o m [www.worldcom.com/]. It details how the accounting irregularities were discovered by our internal audit team, led by Ms. Cynthia Cooper. The kind of initiative demonshated by our internal audit group is to be applauded and will continue to be encouraged.

- William McLucas, a former Chief of the Enforcement Division of the SEC, was retained to perform an independent investigation of the facts and circumstances underlying the transfers. He will investigate not only our past and current management team, but also our Board regarding any individual involvement. His report will identify the wrongdoers and, in addition, will enable us to put into place new or modified internal procedures to prevent any recurrence of this type of event.

- Coincident with our Chapter 11 filing, WorldCom announced the election of two new members to its Board of Directors: Nicholas deB. Katzenbach and Dennis R. Beresford. Mr. Katzenbach is a former Attorney General of the United States. Mr. Beresford has served as Chairman of the Financial Accounting Standards Board (FASB). Both were appointed to a Special Investigative Committee of the Board to conduct an independent review of the company's accounting practices and preparation of financial statements. They will assume an oversight role with respect to Mr. McLucas' investigation.

- If we are to he a model for corporate behavior going forward, we must be transparent and above reproach. Therefore, in our July 1 SEC statement, we clearly stated that we were examining whether additional earnings restatements might be required for periods going back to 1999 with respect to the accounting for reserves established by the company. We are committed to completing this analysis, with the assistance of our new external auditors, KF'MG, at the earliest possible date and to announcing the results of that analysis promptly.

Many questions still remain. We won't know the answers until the conclusion of the pending investigations. We will continue to cooperate fully with the various agencies and the Congress to answer those questions.

Filing for Protection Under Chapter 11 of the U.S. Bankruptcy Code

As noted earlier, WorldCom had successfully negotiated a new accounts receivable securitization program and was nearing accord on a new $5 billion dollar credit facility when we announced the accounting irregularity and the need to restate earnings. Because of the need to restate, WorldCom no longer had valid, audited financial statements. Within a matter of days, the banks withdrew the receivables program and ended negotiations on the new credit facility. Without audited financial statements, the public debt markets were closed to WorldCom. Our hand was forced – we had no choice but to file a Chapter 11 petition and seek Debtor-In-Possession (DIP) financing.

On July 21, WorldCom filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. Chapter 11 allows a company to continue operating in the ordinary course of business and to maximize recovery for the company's stakeholders. WorldCom's non-U.S. subsidiaries are not included in the filing and will also continue to operate normally.

WorldCom also announced that we had obtained an agreement to arrange up to $2 billion in DIP financing. The company already has secured a commitment of $750 million of this amount from Citibank, N.A., JP Morgan Chase Bank and General Electric Capital Corporation to supplement the company's cash flow during the Chapter 11 proceeding.

We struggled to avoid this outcome. Unfortunately, our need to restate earnings left us few options. In the end, we believe Chapter 11 is the best way to help the most people. The principal reasons for pursuing this option were:

- It allows us to continue our company's high quality service and customer programs. We will work closely with our lenders and federal and state regulators to ensure that there will be no disruption in service to any of our consumer, business or government customers. We have already had significant feedback from customers stating their support for our efforts to move the company forward and their commitment to stay with us through this process.

- It provides the best alternative for preserving jobs for our employees.

- It allows us, post-filing, to pay all suppliers, vendors and employees in the normal course of business. We are a very large customer to most of our suppliers. This action allows them to keep our business. The nation's economy will avoid a negative "ripple effect?. We will not, however, be allowed to pay claims arising prior to filing without Bankruptcy Court approval.

- It provides our company with a systematic, legal framework to operate our business normally, while we focus our business plan and get our finances in order. It allows us to reconfigure our capital structure, reduce the unmanageable debt burden, improve cash flows, and deal with legal and financial issues in an organized manner – all of which are intended to make the company leaner and stronger, and to put it in a position to create future value for our stakeholders. Many companies having nationwide operations - including Continental, Texaco, Federated Department Stores, Southland Corporation -- have emerged from Chapter 11 as stronger, fiercer competitors.

WorldCom's Future

Our intention is that WorldCom emerge from Chapter 11 as quickly as possible. I strongly believe that WorldCom is most valuable as an intact enterprise – clearly an example of the whole being greater than the sum of its parts. I believe that a large number of our creditors recognize this as well.

Unlike many companies entering Chapter 11, WorldCom has significant assets that will help it successfully *emerge* from the process: a significant customer base that is balanced between large enterprise customers and smaller mass-market consumers, a first-class global network that provides us with a superb platform with which to compete in the marketplace, and talented and dedicated employees.

When we do emerge from Chapter 11, we plan to be a competitive force to be reckoned with in the marketplace. We intend to eliminate a substantial amount of our debt, dispose of unpmfitable lines of business, and significantly lower our costs. WorldCom's presence will continue to ensure competition in the rapidly consolidating telecom industry. No other company's legacy matches ours in terms of promoting competition and delivering its benefits to consumers and businesses in both pricing and product innovation. WorldCom is one of the last hopes for America to realize the intended benefits of the 1996 Act.

CONCLUSION

In concluding, I urge this Committee and the Congress to stay the course in promoting competition. The telecom industry, as a whole, is struggling, but competition is alive. The Act provides the right policy direction; to ensure the future vitality of competition, the Act needs to be fully implemented and enforced. Reversing course via legislation or regulation would cause even more harm to the industry and to the economy.

As for WorldCom specifically, our pro-competition legacy will continue. Mr. chairman and members of the Committee, we will work hard to regain your trust and that of the American people. We will work hard to rebuild the value of the company. We will continue to be straight about any problems we may discover and act aggressively to solve them. We will operate WorldCom according to the highest commercial and ethical standards. We will return your faith in us by continuing to make a significant difference in the marketplace – providing industry-leading telecom services and unsurpassed value to all of our customers